



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Remarks of Sen. Chuck Grassley, Chairman, Committee on Finance
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I would like to address some of the major business tax issues that will come before the Committee this year, and give you my assessment of their current state of play. The first order of business this year will be our economy. The Finance Committee will act on a stimulus and jobs package when the budget resolution is passed and we have a number for the tax package. The resolution should be finished by mid-April.

Any economic stimulus package must meet three criteria. First, it must be economically efficient, meaning that it must produce jobs, good jobs, lasting jobs. Second, its effect on the economy must be immediate; there should be minimal delay in its stimulative effect on the economy. And, third, the package must have bipartisan support in a 51-49 Senate. The President's "Near Term Growth & Jobs Package" contains many elements that should draw immediate bipartisan support, such as: expanding the 10 percent rate bracket; reducing the marriage penalty; increasing the child tax credit; and increasing the small business deduction.

I know many of you are interested in the President's proposal to eliminate the double taxation of dividends. Eliminating double taxation is good tax policy. Taxing income twice distorts basic business decisions and results in economic inefficiency. A dollar of income should not be taxed by the government when it is earned and again when it is transferred to its true owner. I will work closely with my colleagues on both sides of the aisle to craft a growth and jobs proposal that can be passed in a 51-49 Senate. I would note, however, that while many of my counterparts complain about the state of the economy and the stock market, few have offered creative solutions. I commend the President on his effort to craft a fiscal policy that would address the difficult issues facing our financial markets and the impact those issues have on Americans' sense of financial well-being. I challenge the detractors of the dividend exclusion proposal to offer creative solutions of their own.

Another important issue is the WTO decision on FSC-ETI. Our bipartisan bicameral working group has continued throughout the fall. We are working hard to reach agreement on this issue. We are committed to getting it done this year, but addressing the economy comes first. We will turn to FSC-ETI once we have completed action on a jobs and stimulus package. Yesterday, the EU announced that it has finalized its FSC-ETI sanctions list. Threats to impose sanctions will not change our timetable for getting this done. The Europeans need to understand that major changes to our tax code do not happen overnight.

I am concerned that EU moves on trade sanctions will only inflame passions, delay the legislative process, and lead to slower economic growth in both Europe and the United States. As you know, the Joint Committee recently released its report on tax and compensation abuses at Enron. The report may generate changes to the tax shelters bill that was passed by the Committee as a revenue offset in the CARE Act. I suppose I should not have been so shocked by what we learned

about Enron, but I was. The collusion we saw among accountants, lawyers, and investment bankers was nothing short of racketeering. They knew what Enron was up to and they aided and abetted its financial fraud.

Corporate malfeasance is a cancer that can spread if it's not cut out. Some would argue that Congress created the loopholes we're now condemning. I think it's more likely that we crafted vague legislative language that creative people learned to exploit. Congress has a responsibility to conduct oversight in this area. Innocent people get hurt when corporations play games with money. So we will review our shelter bill in light of what we have learned.

Inversions will again be on the table this year. We will reintroduce both our REPO bill and our RECAP bill. The REPO bill strips the tax benefits out of an inversion, and the RECAP bill bans inverters from receiving federal contracts.

Among other unfinished business from last year is the pension bill, which was S. 1971 in the 107th Congress. This bill was caught up in the end of the session gridlock and needs enactment. It will provide workers with important new diversification rights so that they can better manage their retirement accounts.

I also anticipate floor action very soon on the *Armed Forces Tax Fairness Act* that was recently passed by the Committee. The revenue offset in that bill covered individual expatriations. After this Act was voted out of Committee, the Joint Committee released its report on individual expatriation activities. So we may need to revisit the revenue offset in that bill based on what we learn from the JCT report.

The federal moratorium on state taxation of Internet transactions expires this year. I know that this conference focuses on the taxation of Internet and catalog sales, which, of course, concerns state business taxes. The Streamlined Sales Tax Project has completed the first part of its work -- adopting an agreement that seeks to bring order and clarity to sales and use tax in multiple jurisdictions. Now begins the hard part of having state legislatures pass into law the agreement that has been forged. I will certainly be monitoring the actions of the states as the Finance Committee revisits the moratorium this year.

There has been a lot of talk of the budget concerns facing the states. Many will argue that taking action here is one possible option the states have to address questions of revenue. With more state and private sector cooperation, federal action in this area will become less and less important.

There is an international Internet matter that I want to address. The European Community recently directed that U.S. businesses are subject to EU value-added taxes when a citizen of the EU downloads a digital product from a U.S. business's Web site. This is a disturbing development. The EU is imposing VAT taxes on U.S. companies that have never stepped foot inside the EU. I recently learned that some U.S. companies have been forced to set up offices and move employees to Europe to comply with the EU VAT directive. This rule also is designed to discriminate against U.S. vendors by possibly forcing them to impose a higher VAT rate than EU vendors may impose. Dragging jobs out of the U.S., subjecting U.S. companies to EU taxes, and discriminating against U.S. vendors is intolerable. This is an unjust rule and I would like to see it challenged.

With that, I would like to open our discussion to any questions.